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SUBJECT: Rio Radar - August 28, 2009

¶1. (U) Rio Radar is a weekly compilation of key economic, political, commercial, and other developments in the states of Rio de Janeiro, Bahia, Minas Gerais, Espirito Santo, and Sergipe. This week's subjects:

PRESALT OIL ROYALTIES ISSUE DIVIDES GOVERNORS IN RIO CONSULAR DISTRICT

¶2. (U) On August 25, Globo, Rio's newspaper of record, reported that Rio de Janeiro Governor Sergio Cabral (PMDB party) and Minas Gerais Governor Aécio Neves (PSDB party) disagreed over how the pre-salt oil regulatory framework should address distribution of royalties. According to the report, Cabral stated, "We are going to fight with all democratic instruments available to us against national distribution of resources." Governor Neves responded that all states of Brazil need to benefit from royalty payments, in order to avoid "greater developmental distortions between certain states and regions."

¶3. (U) In an apparent sign of protest to rumors that President Lula's Administration (PT party) would not introduce the royalty issue in the new regulatory framework to avoid political conflicts (and thus hold up Congressional passage), Rio Governor Cabral and Espirito Santo Governor Paulo Hartung (PMDB party) publicly declined President Lula's invitation to an August 31 announcement ceremony of the reform package, in Brasilia. (Note: Rio de Janeiro and Espirito Santo are responsible for 90 percent of Brazil's oil production and would stand to lose a significant amount of revenue if other states share in the pre-salt oil royalties under the new regulations. For Rio de Janeiro, which along with spirito Santo, receives the lion's share of royalties and taxes, this could represent a loss of 14 billion Brazilian Reals - 7.5 billion USD - per year. End Note). Minister of Mines and Energy Edison Lobao (PMDB party) subsequently made conflicting statements as to whether or not the Lula Administration will include the royalties issue in the upcoming regulatory framework.

RIO GOVERNOR INTENDS TO 'PACIFY' 30 ADDITIONAL FAVELAS WITHIN NEXT YEAR

¶4. (SBU) Wilson Carlos de Carvalho, a senior official advising Rio Governor Cabral on security, told us on August 28 that state and local security forces intend to occupy and maintain control of some 30 favelas within the next year. The commander for BOPE, the state military police's special operations unit, told us on August 19 that his forces intended to occupy at least three favelas by the end of the year (Note: Rio state Pacification Police, or UPP, currently maintain a presence in four favelas throughout Rio de Janeiro. End Note). Carvalho said the state intends to dedicate an additional 3,500 new police academy recruits to this effort over the next year.

RIO STATE BRINGS CLASSICAL MUSIC TO FAVELAS...BUT WHAT ABOUT SERVICES?

¶5. (SBU) As part of Rio State's favela "pacification" strategy, the Symphonic Orchestra of Rio de Janeiro's Municipal Theater performed at Cidade de Deus (City of God), a favela immortalized by the 2002

film of the same name. A community leader of the Batan favela told us on August 19 that music performances were also taking place in that community. At the same time, Colonel Jose Vieira, commander of the Pacification Police (UPP) said his troops last week had to quell "near-rioting" crowds of residents demanding basic services in one of the other two favelas the UPP currently controls.